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SIPDIS

DEPARTMENT FOR EB/IFD/OIA
DEPARTMENT PASS TO USTR AGAMA
TREASURY FOR PETERS, IERONIMO, HALL
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SUBJECT: NIGERIA: 2009 INVESTMENT CLIMATE STATEMENT

REF: STATE 123907

11. The following information is Nigeria's 2009 Investment Climate Statement.

Overview

12. With an estimated population of over 140 million, Nigeria is Africa's most populous nation. It offers investors a low-cost labor pool, abundant natural resources, and potentially the largest domestic market in sub-Saharan Africa. Despite these advantages, much of that market potential is unrealized. Impediments to investment include inadequate infrastructure, corruption, an inefficient property registration system, an inconsistent regulatory environment, restrictive trade policies, and slow and ineffective courts and dispute resolution mechanisms.

13. To succeed, investors must understand the Nigerian business environment and engage in problem solving with local staff, Nigerian partners and government officials. Potential investors must cope with poorly maintained infrastructure and arbitrary policy changes. Security is of special concern due to high crime and repeated cases of hostage taking and attacks on oil installations in the oil-rich Niger Delta region. Inadequate law enforcement compounds the country's high crime rate, and sporadic outbreaks of communal violence due to ethnic and religious conflicts continue.

14. Military rule ended with the inauguration of a civilian administration in May 1999. Nigeria conducted its third general elections in April 2007 resulting in a civilian to civilian hand over of power from former President Olusegun Obasanjo to President Umar Musa Yar'Adua. The elections were however, characterized by gross irregularities. A large number of the electoral victories in the April 2007 general elections are currently being challenged in various electoral tribunals and courts in the country. Results of the presidential election were challenged as well, with the Supreme Court ruling in December 2008 to uphold President Yar'Adua's election. The courts have overturned the announced results in a few cases, including some governorship results, and at least forced re-runs in a few others.

15. The Nigerian government (GON) embarked on a reform program in late 2003 christened the National Economic Empowerment and Development Strategy (NEEDS). The present administration of President Yar'Adua has assured that the economic reforms will be sustained. Yar'Adua's economic vision is embedded in his "Seven Point Agenda" focusing on power and energy, food security and agriculture, wealth creation and employment, mass transportation, land reform, security, and education system. However, an economic blueprint for achieving these objectives has not been drafted by the

GON. Freedom of expression and of the press is observed, in most cases, though most publications practice self-censorship regarding sensitive issues. There was, however one incident this year when several of the senior editors of a newspaper were arrested reportedly in response to a story about the President's health; one private TV station was briefly closed over a similar story. In addition, two editors of online publications were detained (not clear in response to which story) but not charged, and soon released. Nonetheless, human rights violations have been reduced from the time of military rule, although the country's human rights record remains poor. Controls over foreign investment have been loosened, and earlier decrees inhibiting competition or conferring monopoly powers on public enterprises have been repealed or amended. Despite these actions, policymakers' protectionist bent remains strong. Trade policy is inconsistent, and the GON prohibits the importation of many goods, ostensibly to foster domestic production.

Openness to Foreign Investment -----

¶6. The GON continues to solicit foreign investment and has implemented various reforms towards attracting it.

¶7. Legal Framework: With a few exceptions, the Nigerian Investment Promotion Commission (NIPC) Decree of 1995 allows 100% foreign ownership of firms outside the petroleum sector, where investment is limited to existing joint ventures or new production-sharing agreements. Industries considered crucial to national security, such as firearms, ammunition, and military and paramilitary apparel, are reserved for domestic investors. Foreign investors must register with the NIPC after incorporation under the Companies and

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Allied Matters Decree of 1990. The decree prohibits the nationalization or expropriation of foreign enterprises except in cases of national interest.

¶8. Nigerian laws apply equally to domestic and foreign investors. These include the Securities and Exchange Act of 1999, the Foreign Exchange Act of 1995, the Money Laundering Act of 2003, the Banking and Other Financial Institutions Act of 1991, and the National Office of Technology Acquisition and Promotion Act of 1979.

¶9. Privatization: The Privatization and Commercialization Act of 1999 established the National Council on Privatization, the policymaking body overseeing the privatization of state-owned enterprises (SOEs), and the Bureau of Public Enterprises (BPE), to implement the program. BPE has focused on privatization of key sectors, including telecommunications and power, calls for core investors to acquire controlling shares in formerly state-owned enterprises. The GON repealed or amended decrees that inhibited competition or conferred monopoly powers on parastatal firms. From 1999 to 2007, BPE raised over \$4 billion by privatizing and concessioning more than 140 enterprises, including cement manufacturing firms, banks, hotels, and vehicle assembly plants. Since President Yar'Adua's inauguration no large or substantive SOEs have been privatized. The Infrastructure Concession Regulatory Commission (ICRC) was inaugurated in 2008 with the goal of identifying greenfield infrastructures for concessioning.

¶10. With the passage of the Power Sector Reform Bill in 2005, a power sector regulator, the Nigerian Electricity Regulatory Commission (NERC) was created with responsibility for tariff regulation and economic and technical regulation of the electricity supply industry. Since its inception, the NERC has issued twenty nine licenses to independent power producers in the electricity industry. By the end of 2008 three IPP plants were operational. A major hurdle facing the IPPs is the insufficient supply of natural gas to power the plants.

¶11. The privatization of Nigeria's Power Holding Company of Nigeria through the Electric Power Sector Reform Act of 2005 (PHCN -- formerly the National Electric Power Authority or NEPA) has moved slowly. The eventual privatization of the successor companies was frustrated by the lack of interest by potential investors due to the

deplorable state of power sector infrastructure. In May 2008 the GON established a coordinating office at PHCN headquarters; a Board of Directors, headed by the Minister of Energy for Power; and appointed a vice chairman to jointly oversee the rehabilitation of the power infrastructure and provide proper transfer of employees, assets, liabilities, rights and obligations of the holding company to the various successor companies. At this writing, the GON has decided not to divest all generation, and to maintain ownership of the National Transmission Grid.

¶12. The GON has substantially opened Nigeria's telecommunications sector. The Telecommunications Act of 2001 authorizes the Nigerian Communications Commission (NCC) to issue licenses to existing and prospective service providers. Five enterprises, including Etisalat which commenced operations in 2008 and NITEL, have licenses. Globacom won mobile, fixed, and international gateway licenses as Nigeria's second national operator in mid-2002. According to the NCC, the estimated total number of phone lines (both mobile and fixed line) in Nigeria at the end of September 2008 was 57.07 million with a teledensity of 40.77. This is an improvement from the December 2007 figure of 41.97 million lines and teledensity of 29.98. In July 2007, three carriers in the 800MHz spectrum band were awarded to Visafone Communications in a competitive auction process that included GiCell Wireless Limited, Multilinks Telecommunication Limited, and TC Africa Telecoms Network Limited. Also in March 2007, four licenses for a 10MHz lot in the 2GHz spectrum were issued to Alheri Engineering Co. Limited, Celtel Nigeria Limited, Globacom Limited, and MTN Nigeria Communications Limited.

¶13. The NCC commenced the unified licensing regime in May 2006, awarding the first batch of unified licenses to four telecommunication service providers. The unified license permits telecommunications companies to offer services across the board in telecommunications, including fixed line, wireless, data services, etc. This marks the end of the five-year exclusivity incentive granted the mobile telephone licensees in 2001.

¶14. Telecommunications deregulation has led to the issuance of licenses for fixed wireless networks, internet services, and VSAT (very small aperture terminal) satellite telecommunications

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equipment services. However, the GON's hefty fees and infrastructure deficiencies such as inadequate power supply slow the impact and implementation of these technologies.

Conversion and Transfer Policies

¶15. The Foreign Exchange Monitoring Decree of 1995 opened Nigeria's foreign exchange market. In February 2006, in accordance with its plan to liberalize the foreign exchange market, Nigeria adopted a Wholesale Dutch Auction System (WDAS) which gives banks more control of the foreign exchange market, though the Central Bank still retains its supervisory role over the market.

¶16. Foreign companies and individuals can hold non-naira denominated accounts in domestic banks. Account holders have unlimited use of their funds, and foreign investors are allowed unfettered repatriation of capital. For naira denominated accounts there is a \$4,000 quarterly Personal Travel Allowance for foreign exchange and a \$5,000 quarterly Business Travel Allowance per individual. Foreign exchange for travel is usually issued in cash by commercial banks while some authorized dealers also issue pre-paid credit cards that can be used on ATM machines worldwide. Purchase of foreign exchange for business purposes such as importing equipment and raw materials, and also paying school fees abroad has to be routed through authorized dealers i.e., banks. This can only be done with proper documentation such as filling out the Form M, presenting copies of the certificate of incorporation of the company etc.

¶17. The NIPC guarantees investors unrestricted transfer of dividends (net a 10% withholding tax). Companies must provide evidence of income earned and taxes paid before receiving

remittances. Money transfers usually take not more than 48 hours if the necessary documentation is provided. All transfers are required by law to be made through banks, because banks are the only licensed foreign exchange agents.

Expropriation and Compensation

¶18. The GON has not expropriated or nationalized foreign assets since the late 1970s.

Dispute Settlement

¶19. Investment Disputes: Nigeria's civil courts handle disputes between corporate bodies and the GON as well as between Nigerian businesses and foreign investors. The courts occasionally rule against the GON; however, the settlements in these cases are not always expeditiously paid. Nigerian law allows the enforcement of foreign judgments after proper hearings in Nigerian courts. Plaintiffs receive monetary judgments in the currency specified in their claims.

¶20. Legal System: Nigeria has a complex three-tiered legal system composed of English common law, Islamic law, and Nigerian customary law. Most business transactions are governed by "common law" as modified by statutes to meet local demands and conditions. At the pinnacle of the judicial system is the Supreme Court, which has original and appellate jurisdiction in specific constitutional, civil, and criminal matters as prescribed by Nigeria's constitution.

The Federal High Court has jurisdiction over revenue matters, admiralty law, banking, foreign exchange, other currency and monetary or fiscal matters, and lawsuits to which the federal government or any of its agencies are party. The Nigerian court system has too few court facilities, lacks computerized document processing systems, and poorly remunerates judges and other court officials, all of which encourages corruption and undermines enforcement. Debtors and creditors rarely have recourse to Nigeria's pre-independence bankruptcy law. In the Nigerian business culture, businessmen generally do not seek bankruptcy protection. Even in cases where creditors obtain a judgment against defendants, claims often go unpaid.

¶21. The public increasingly resorts to the court system and is more willing to litigate and seek redress. However, use of the courts does not automatically imply fair or impartial judgments. In the World Bank's publication, Doing Business 2009, which surveyed 181 countries including Nigeria, it reported that GON efforts have led to some improvements in the way business is conducted, especially in dealing with construction permits, but more needs to be done.

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Regarding the enforcement of contracts Nigeria was ranked 90 out of 181 countries surveyed, a slight improvement compared with its ranking of 93 out of 178 countries in 2008. In addition, the report revealed that contract enforcement required 39 procedures and 457 days, the cost of which averaged 32 % of the value of the contract; in comparison to contract enforcement in OECD countries that required 30.8 procedures, spanning 462.7 days at a cost of 18.9% of the claim; and sub-Saharan African countries that require 39.4 procedures, 659.7 days, and 48.9% of the claim.

¶22. Alternative Dispute Resolution: The Arbitration and Conciliation Act of 1988 (the Arbitration Act) provides for a unified and straightforward legal framework for the fair and efficient settlement of commercial disputes by arbitration and conciliation. The Act established internationally competitive arbitration mechanisms, fixed proceeding schedules, provided for the application of the UNCITRAL (United Nations Commission on International Trade Law) arbitration rules or any other international arbitration rule acceptable to the parties, and made the Convention on the Recognition and Enforcement of Arbitral Awards (New York Convention) applicable to contract enforcement, based on reciprocity. The Act allows parties to challenge arbitrators and provides that an arbitration tribunal shall ensure that the parties are accorded equal treatment, and that each party has full

opportunity to present its case.

Performance Requirements/Incentives

¶23. Nigeria regulates investment in line with the World Trade Organization's Trade-Related Investment Measures (TRIMS) Agreement. Foreign companies operate successfully in Nigeria's service sector, including telecommunications, accounting, insurance, banking, and advertising. The Securities and Exchange Act of 1988, amended in 1999 and renamed the Investment and Securities Act, forbids monopolies, insider trading, and unfair practices in securities dealings.

¶24. To meet performance requirements, foreign investors must register with the Nigerian Investment Promotion Commission, incorporate as a limited liability company (private or public) with the Corporate Affairs Commission, procure appropriate business permits, and (when applicable) register with the Securities and Exchange Commission. Manufacturing companies are sometimes required to meet local content requirements. Expatriate personnel do not require work permits, but they are subject to "needs quotas" requiring them to obtain residence permits that allow salary remittances abroad. Larger quotas are allowed for professions deemed in short supply, such as deepwater oilfield divers. U.S. companies often report problems obtaining quota permits.

¶25. The GON maintains many different and overlapping incentive schemes. The Industrial Development/Income Tax Relief Act No. 22 of 1971, amended in 1988, provides incentives to pioneer industries deemed beneficial to Nigeria's economic development and to labor-intensive industries, such as apparel. Companies that receive pioneer status may benefit from a nonrenewable 100% tax holiday of five years (seven years if the company is located in an economically disadvantaged area). Industries that use 60 to 80% of local raw materials in production may benefit from a 30% tax concession for five years, and investments employing labor-intensive modes of production may enjoy a 15% tax concession for five years. Additional incentives exist for the natural gas sector, including allowances for capital investments and tax-deductible interest on loans. The GON encourages foreign investment in agriculture, mining and mineral extraction (non-oil), oil and gas, and the export sector. In practice, these incentive programs meet with varying degrees of success.

¶26. Technology Transfer Requirements: The National Office of Industrial Property Act of 1979 established the National Office of Technology Acquisition and Promotion (NOTAP) to facilitate the acquisition, development, and promotion of foreign and indigenous technologies. NOTAP registers commercial contracts and agreements dealing with the transfer of foreign technology and ensures that investors possess licenses to use trademarks and patented inventions and meet other requirements before sending remittances abroad. In cooperation with the Ministry of Finance, NOTAP administers 120% tax deductions for research and development expenses if carried out in Nigeria and 140% deductions for research and development using local raw materials.

¶27. NOTAP recently shifted its focus from regulatory control and

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technology transfer to promotion and development. With the assistance of the World Intellectual Property Organization, NOTAP has established a patent information and documentation center for the dissemination of technological information to end-users. The office has a mandate to commercialize institutional research and development with industry.

¶28. Import Policies: Tariffs provide the GON its (distant) second largest source of revenue after crude oil exports. Frequent policy changes and uneven duty collection make importing difficult and expensive and create severe bottlenecks. Nigeria's dependence on imports aggravates the situation. In September 2008, the GON announced a new tariff policy beginning in 2008 to 2012, which marked its second attempt at harmonizing its tariff with its West African neighbors under the ECOWAS Common Economic Tariff (CET) regime,

which include five tariff bands.

¶29. The new tariff policy reduces the number of banned tradable imports from 44 to 26 items, and there is a reduction in tariff on a wide range of items. The GON also reduced the applicable duty rate on the fifth tariff band from 50% to 35%. Tradable imports that remain banned in the new tariff policy include frozen poultry, pork, beef, cassava, pasta, fruit juice in retail packs, toothpicks, soaps and detergents, refined vegetable oil, beer and non-alcoholic beverages, some textiles, and plastics. ECOWAS CET negotiations were expected to have been concluded by January 2008, but this was not achieved. It is hoped that with the reduction of the tariff on the 5th tariff band proposed by Nigeria from 50% to 35%, there will be progress in the negotiations. The fifth tariff band covers mostly luxury goods.

¶30. The Nigerian Customs Service (NCS) and the Nigerian Ports Authority (NPA) have exclusive jurisdiction over customs services and port operations. Nigerian law allows importers to clear goods on their own, but most importers employ clearing and forwarding agents.

¶31. Many importers under-invoice shipments and engage in currency arbitrage to minimize tariffs and lower their landed costs. Others ship their goods to ports in neighboring countries, after which they are transported overland. The GON began a destination inspection regime in January 2006, which had earlier been shelved on four different occasions since 2002. Under the destination inspection scheme, goods destined for Nigeria's ports would be inspected at the point of entry rather than at the point of shipment. Guidelines for the new scheme were announced, and three companies were awarded a seven-year contract to act as inspection agents at Nigeria's seaports, border posts, and airports. The companies are Cotecna, SGS, and Global Scan. The exclusive contract will expire by 2012, if Nigerian Customs officials have completed training on the new scheme and on the handling of the scanning machines, which would be handed over to the NCS at the expiration of the contract.

¶32. Shippers report that efforts to modernize and professionalize the NCS and the NPA have reduced port congestion and clearance times including mandatory 48 hour clearance, particularly at Lagos' Apapa Port, which handles over 40% of Nigeria's trade. This is particularly the case for container traffic. Nevertheless, bribery of customs and port officials remains commonplace, and smuggled goods routinely enter Nigeria's seaports and cross its land borders.

¶33. Export Incentives: Most export incentives have been abolished, though the government is reviewing reinstating some selected incentives.

¶34. Although highly underused, the Nigerian Export-Import Bank provides commercial bank guarantees and direct lending to facilitate export sector growth. The bank's Foreign Input Facility provides normal commercial terms of three to five years (or longer) for the importation of machinery and raw materials used for generating exports.

¶35. Agencies meant to promote industrial exports, remain burdened by uneven management, vaguely defined policy guidelines, and corruption. Nigeria's high production costs because of inadequate infrastructure also leave Nigerian exporters at a disadvantage.

¶36. Government Procurement: The GON awards contracts under an open-tender system, advertising tenders in Nigerian newspapers and opening them to domestic and foreign companies. Procurement has become slightly more transparent, but corruption persists in the awarding of government contracts.

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¶37. Procurement for capital projects is often subject to over-invoicing, which permits improper payments to private and public sector officials. Many U.S. companies claim they are disadvantaged in obtaining GON contracts, even when they appear to have the best bids in technical and financial terms. Unsuccessful

U.S. bidders sometimes allege collusion between foreign competitors and key GON officials.

¶38. The Bureau of Public Procurement, the successor agency to the Budget Monitoring and Price Intelligence Unit (BMPIU) after the enactment of the public procurement legislation in May 2007 acts as a clearinghouse for government contracts and procurement, and monitors the implementation of projects to ensure compliance with contract terms and budgetary restrictions. Procurements above N50 million (about \$380,000) are subject to full "due process," as the process is called. It is expected that the public procurement legislation would also be passed at the lower tiers of government.

¶39. Visa Requirements: Investors sometimes encounter difficulties acquiring entry visas and residency permits. Foreigners must obtain entry visas from Nigerian embassies or consulates abroad, seek expatriate position authorization from the Nigerian Investment Promotion Commission, and request residency permits from the Nigerian Immigration Service. Investors report that this cumbersome process can take from two to 24 months and cost from \$1,000 to \$3,000 in facilitation fees.

Right to Private Ownership and Establishment

¶40. In accordance with the NIPC Decree of 1995, the GON supports competitive business practices and protects private property.

Protection of Property Rights

¶41. The GON recognizes secured interests in property, such as mortgages. The recording of security instruments and their enforcement are subject to the same inefficiencies as those in the judicial system. In the World Bank's publication, Doing Business 2009, Nigeria was ranked 176 of the 181 countries surveyed for registering property, requiring 14 procedures and 82 days at a cost of 21.9% of the property value. According to the report, property registration in OECD countries requires an average of 4.7 procedures, 30.3 days, and a cost of 4.5% of property values, while in sub-Saharan African countries it requires an average of 6.8 procedures, 95.6 days, and a cost of 10.5% of property value.

¶42. Fee simple property rights are rare. Most property is long-term leases with certificates of occupancy acting as title deeds. Transfers are complex and must usually go through state governor's offices. In Abuja, the Federal Capital Territory government cancelled and began a process of reregistering all property allotments, refusing to renew those it deemed not in accordance with the city's master plan. Buildings on these properties have frequently been demolished, even in the face of court injunctions. Therefore acquiring and maintaining rights to real property are a major challenge.

¶43. Nigeria is a member of the World Intellectual Property Organization (WIPO) and a signatory to the Universal Copyright Convention, the Berne Convention, and the Paris Convention (Lisbon text). The Patents and Design Decree of 1970 governs the registration of patents, and the Registry of Trademarks, Patents and Designs in the Ministry of Commerce and Industry is responsible for registering patents, trademarks, and designs. Once conferred, a patent conveys exclusive rights to make, import, sell, or use a product or apply a process. The Trademarks Act of 1965 gives trademark holders exclusive rights to use registered trademarks for a specific product or class of products. The Copyright Decree of 1988, subsequently amended in 1992 and 1994 and later codified as the Copyright Act Chapter C 28 Laws of the Federation of Nigeria 2004 is based on WIPO standards and U.S. copyright law, and makes it a crime to export, import, reproduce, exhibit, perform, or sell any work without the permission of the copyright owner. However under the Copyright Act, owners of copyrights do not register their works, rather, they notify the Nigerian Copyright Commission. Nigeria's copyright statutes also include the National Film and Video Censors Board Act and the Nigerian Film Policy Law of 1993.

¶44. In 1999 amendments to the Copyright Decree incorporate trade-related aspects of intellectual property rights (TRIPS)

protection for copyrights, except provisions to protect geographical indications and undisclosed business information. Among the various GON agencies there is confusion regarding proposed legislation which is expected to put all intellectual property agencies under a single and uniform authority. Concomitantly a private bill that would establish an Industrial Property Commission is being considered by the National Assembly. This private bill would amend the Patents and Design Decree to make comprehensive provisions for the registration and proprietorship of patents and designs, amend the Trademarks Act to improve existing legislation relating to the recording, publishing, and enforcement of trademarks, and provide protection for plant varieties (including biotechnology) and animal breeds. However, there are also competing plans by the Ministry of Commerce and Industry and the Ministry of Justice to send similar bills to the National Assembly for consideration. This is ongoing division has lasted since at least 2006.

¶45. The GON has signed the WIPO Internet treaties but has yet to ratify them. The Nigerian Copyright Commission claims, however, that it is already implementing the terms of the treaties.

¶46. Patent and trademark enforcement remains weak, and judicial procedures are slow and subject to corruption. Relevant Nigerian institutions suffer from low morale, poor training, and limited resources. A key deficiency is inadequate appreciation of the benefits of IPR protection among regulatory officials, distributor networks, and consumers. The over-stretched and under-trained Nigerian police have little understanding of intellectual property rights. The new tariff policy released in September 2008 empowers the Nigerian Customs Service (NCS) to seize pirated works and prosecute offenders. Though the NCS has received some WIPO-sponsored and USG-sponsored training, it admits that the technical capacity of its officers need to be enhanced for it to be able to combat piracy effectively.

¶47. Companies do not often seek trademark or patent protection, the enforcement mechanisms of which they consider ineffective. Nonetheless, recent efforts to curtail abuse have yielded spotty results. The Nigerian police and the Nigerian Copyright Commission in conjunction with the Economic and Financial Crimes Commission have raided compact disc replicating plants, enterprises producing and selling pirated software and videos, and a number of businesses have filed high-profile charges against IPR violators.

¶48. Most raids involving copyright, patent, or trademark infringement appear to target small rather than large and well-connected pirates. Very few cases have been successfully prosecuted. Most cases are settled out of court, if at all. Those adjudicated in court are handled primarily by the Federal High Court, whose judges are generally familiar with intellectual property rights law.

Transparency of the Regulatory System

¶49. Nigeria's legal, accounting, and regulatory systems are consistent with international norms, but enforcement is uneven. There are sometimes opportunities for public comment and input into proposed regulations.

¶50. Professional organizations set standards for the provision of professional services: e.g., accounting, law, medicine, engineering, and advertising. These standards are usually consistent with international norms. No legal barriers prevent entry into this sector.

¶51. Taxation: In general, Nigeria's tax laws do not impede investment, but the imposition and administration of taxes is highly uneven and lacks transparency. Tax evasion is common, and individuals and businesses often collude with relevant officials to avoid paying taxes. Nigeria has signed double taxation agreements with several countries, including Great Britain, France, the Philippines and Japan. The GON imposes a 7.5% tax rate on dividends, interest, rent, and royalties when paid to a bona-fide beneficiary under a tax treaty.

¶52. Multiple taxes are a problem for businesses at state and local levels. Companies within concurrent state and local jurisdictions may be expected to pay several taxes and levies.

Efficient Capital Markets and Portfolio Investment

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¶53. The Nigerian Investment Promotion Commission Decree of 1995 liberalized Nigeria's foreign investment regime, which has facilitated access to credit instruments provided by financial institutions. Foreign investors who have incorporated their companies in Nigeria have equal access to all financial instruments.

Some investors consider the capital market, specifically the Nigerian Stock Exchange (NSE), a financing option, given commercial banks' high lending rates and short maturities of debt instruments.

¶54. Trading on the NSE witnessed significant declines in value since March 2008 due to a combination of factors which includes the freeze on margin loans by local banks, and panic by inexperienced investors resulting in huge sales of shares, and the exit of foreign portfolio investors and hedge funds due to economic and financial crisis in their home countries. Market capitalization opened at over 10 trillion naira at the beginning of 2008, but closed at 6.7 trillion naira on December 5, 2008. The Nigerian Stock Exchange All Shares Index opened 2008 at about 58,000 points but fell to 30,653 points on December 5, 2008. The exchange operates nine branches nationwide, and the volume of shares listed continues to rise due to new companies listing their shares on the stock exchange. The introduction of the contributory pension system in late 2005, GON's divestment of equity in parastatal companies as well as initial public offerings (IPOs) and issuances of additional shares by listed companies have contributed to the exchange's growth. The NSE continues to expand its membership and investor pool. Currently, 214 equities are listed on the exchange.

¶55. Government debt instruments are available. Since the inception of the civilian government in 1999, the federal government has issued bonds of various maturities ranging from 2 to 20 years aimed at restructuring its domestic debt portfolio from short-term to medium and long-term instruments. Five state governments issued bonds to finance development projects; however, other states have shelved their plan to raise funds from the capital market in light of the global financial crisis and the stock market decline. The Nigerian Securities and Exchange Commission (SEC) has issued stringent guidelines for states that wish to raise funds on capital markets, such as a credit assessment conducted by a recognized credit rating agency. The credit rating agencies recognized by the SEC are Augusto and Co., and Global Credit Rating (GCR) of South Africa.

¶56. Banking System: As of December 2008, twenty-four commercial banks were operating in Nigeria. In 2007, Standard Bank of South Africa, through its Nigerian subsidiary, Stanbic Bank, acquired majority interest in IBTC Chartered Bank. This led to the merger of both Stanbic Bank and IBTC Chartered Bank. A merger between Bank PHB and Spring Bank will be completed in 2009. Industry experts speculate another round of consolidation in the short term through mergers and acquisitions.

¶57. Health of the Banking System: In October 2008 the Central Bank Governor and Nigerian Deposit Insurance Corporation announced that all Nigerian banks were healthy despite the global financial crisis.

Private sector experts expressed less optimistic opinions and questioned the accuracy of the CBN and NDIC announcements.

Political Violence

¶58. Social unrest, religious and ethnic strife, and crime affect many parts of Nigeria. In the oil-rich Niger Delta region, decades of official neglect, persistent poverty, as well as dislocations and environmental damage caused by energy projects have aggravated socioeconomic unrest. Sabotage and vandalism of pipelines and other

installations and kidnapping of Nigerian and expatriate oil workers are regular occurrences. Many of these criminal activities are designed to extort cash from foreign operators.

¶59. The Niger Delta Development Commission (NDDC) has a mandate to implement social and economic development projects in the Delta region, but the NDDC has been ineffective. State and local governments offer few social services and Niger Delta residents continue to seek direct payments and other assistance from oil companies. Some have implemented their own socioeconomic development programs to assist local communities, but many communities consider the company programs inadequate. In 2009, the federal government established the Ministry for the Niger Delta, to oversee Niger Delta development projects. The position of Minister was filled in December 2009; however, the Ministry had not yet begun its official functions at year's end.

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¶60. In November 2008 an alleged manipulation of local government elections resulted in civil disturbance in the north-central city of Jos culminating in the loss of over 400 lives. In February 2006, riots targeting Christians in response to the publication in Denmark of cartoons considered to disparage the Prophet Muhammad took place in the north-eastern city of Maiduguri with reprisal attacks against Muslims in the south-eastern city of Onitsha. The violence led to the death of over thirty people. Vigilante groups in various parts of the country have exacerbated violence.

Corruption

¶61. Domestic and foreign observers recognize corruption as a serious obstacle to economic growth and poverty reduction. Nigeria has received some positive news on the corruption front. Transparency International in 2008 noted Nigeria's improvement from being the 18th most corrupt country to 58th in its Corruption Perceptions Index. Moreover, in its overall corruption rankings with the least corrupt country rated as number one, Nigeria improved from 147 to 121 in 2008. Despite improvements in the Transparency International rankings, reassignment of large numbers of key personnel in the Economic and Financial Crimes Commission (EFCC) and a lack of progress on high-level corruption cases have brought into question the government's commitment to fighting corruption.

¶62. The Corrupt Practices and Other Related Offences Act of 2001 established an Independent Corrupt Practices and Other Related Offences Commission (ICPC) to prosecute individuals, government officials, and businesses accused of corruption. Over 19 offenses are punishable under the Act, including accepting or giving gratification, fraudulent acquisition of property, and concealment of fraud. Nigerian law stipulates that giving and receiving bribes are criminal offenses and, as such, are not tax deductible. Despite the legislation, ICPC investigations have resulted in less than fifteen convictions since 2001, and corruption remains endemic.

¶63. The Economic and Financial Crimes Commission was established to prosecute individuals involved in financial crimes and other acts of economic sabotage. The EFCC has been most successful in prosecuting low-level internet scam operators. Some high profile convictions have taken place, such as the prosecution of the former governor of Bayelsa State, and the former Inspector General of Police; however, the sentences handed down have been relatively light. However, there are renewed doubts regarding the seriousness of the EFCC to arrest and prosecute corrupt public officials since the change in its leadership in December 2007 and redeployment of personnel in July 2008. In May 2007, Nigeria was admitted into the Egmont Group of Financial Intelligence Units (FIUs). The Paris-based Financial Action Task Force removed Nigeria from its list of Non-Cooperative Countries and Territories in June 2006. The resignation of the first Director of Nigeria's Financial Intelligence Unit in November 2008 has contributed to concerns over the direction of Nigeria's battle with corruption. Nigeria is a pilot participant in the Extractive Industry Transparency Initiative, which seeks to ensure audits of Nigeria's oil accounts. Nigeria is a signatory to the UN Anticorruption Convention, but has yet to ratify it.

Bilateral Investment Agreements

¶64. Investment Agreements: While a Trade and Investment Framework Agreement (TIFA) has been signed with the United States, a bilateral investment treaty (BIT) is not in place. The President of Nigeria, however, has expressed interest in negotiating a BIT with the U.S. Nigeria has bilateral investment agreements with the United Kingdom, Germany, Belgium, South Africa, Italy, Argentina, Egypt, South Korea, China, Jamaica, Sweden, Switzerland, Turkey, Uganda, France, Taiwan, Netherlands and Romania.

OPIC and Other Investment Insurance Programs

¶65. The U.S. Overseas Private Investment Corporation offers all its products to U.S. investors in Nigeria.

Labor

¶66. Over the past decade, Nigeria's skilled labor pool has declined as vocational and university educational standards have plummeted, mainly because of poor funding. Given the low employment capacity of Nigeria's formal sector, over half of all Nigerians work in the

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informal sector and agriculture. In the formal sector, companies involved in businesses such as banking and insurance possess an adequately skilled workforce (often trained abroad, in private institutions, or at the better-funded universities). In the manufacturing sector, workers often require additional training and supervision, but there are too few supervisory personnel to ensure that this is done well. Labor-management relations in some sectors, especially in the country's profitable oil and gas industries, are strained.

¶67. The Right of Association: Nigeria's constitution guarantees the rights of free assembly and association and protects workers' rights to form or belong to trade unions. Several statutory laws nonetheless restrict the rights of workers to associate or disassociate with labor organizations. Since the establishment of the single trade federation system in 1978, non-management senior staff has been prohibited from joining government-recognized trade unions. Although the Trade Union Congress and the Congress of Free Trade Unions are regarded as influential labor federations, the two senior staff associations are denied seats on Nigeria's National Labor Advisory Council (NLAC). A bill to amend the law is working its way through the National Assembly.

¶68. Nigeria's single central labor federation, the Nigeria Labour Congress (NLC), comprises twenty-nine industrial unions. According to figures provided by the NLC, total union membership at the end of 2002 was 4 million. Less than 10% of the total work force is unionized, and except for a few workers engaged in commercial food processing, those in the agricultural sector, which employs the bulk of the work force, are not organized.

¶69. Collective Bargaining: Collective bargaining occurred throughout the public sector and the organized private sector in 2007 and 2008, but public sector employees have become increasingly concerned about the GON's commitment to the collective bargaining process in resolving conflicts. According to the NLC, the GON's failure to implement agreements threatens to "devalue the enviable record of dialogue, consultation, and mutual trust that has characterized the relationship between the GON and the NLC since 1999."

¶70. Collective bargaining in the petroleum industry is relatively efficient compared to other sectors. Except for a longstanding unresolved dispute over the industry's use of contract labor, issues pertaining to salaries, benefits, health and safety, and working conditions tend generally to be resolved quickly through negotiations. Organized labor's efforts to address broad political issues, however, have resulted in industrial actions, such as

general strikes over fuel prices that continue to affect industry productivity.

171. Workers under collective bargaining agreements cannot participate in strikes unless their unions comply with the requirements of the law, which includes provisions for mandatory mediation and referral of disputes to the GON. The law provides the GON the option of referring matters to a labor conciliator, an arbitration panel, a board of inquiry, or the National Industrial Court (NIC). Although the law forbids employers from granting general wage increases to workers without prior government approval, the law is not often enforced. Strikes in both the private and public sectors occur frequently.

172. The Nigerian labor minister may refer unresolved disputes to the Industrial Arbitration Panel (IAP) and the NIC. Union officials question the effectiveness and independence of the NIC in view of its refusal to resolve disputes stemming from the GON's failure to fulfill contract provisions for public sector employees. Union leaders criticize the arbitration system's dependence on the labor minister's referrals.

173. Child Labor: Nigeria has ratified the International Labor Organization (ILO) convention on the elimination of the worst forms of child labor. The 1974 Labor Decree and the 1979 Constitution prohibit forced or compulsory labor and restrict the employment of children under the age of 15 to home-based agricultural or domestic work for no more than eight hours per day. The Decree allows the apprenticeship of youths as of the age of 13 under specific conditions.

174. Despite this, Nigeria's weak economy has forced many children into commercial activities to enhance family income. The 2005 UNICEF State of the World's Children report estimates that 39% of children aged five to 14 were involved in child labor (not

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necessarily exploitative) in Nigeria. Similarly, a 2003 study conducted by the Nigerian National Bureau of Statistics in conjunction with the ILO estimated as many as 15 million children were working in Nigeria, with as many as 40% of them at risk of being trafficked for forced labor.

175. Acceptable Conditions of Work: Nigeria's 1974 Labor Decree provides for a 40-hour workweek, two to four weeks of annual leave, and overtime and holiday pay for all workers except agricultural and domestic. No law prohibits compulsory overtime. The Decree establishes general health and safety provisions, some of which are specific to young or female workers, and requires the factory division of the Ministry of Labor and Employment to inspect factories for compliance with health and safety standards. Underfunding and limited resources undermine the agency's oversight capacity, and construction sites and other non-factory work sites are often ignored. Nigeria's labor law requires employers to compensate injured workers and dependent survivors of laborers killed in industrial accidents, but the Labor Ministry has been ineffective in identifying violators and has failed to implement ILO recommendations to update its inspection program and reporting of accidents.

176. During 2007 the ministry conducted 110 child labor inspections, 410 regular labor inspections, and four comprehensive inspections. In 2006 the ministry also trained approximately 120 labor inspection officers on child labor laws; trained 80 officers to perform inspections in high-risk activities in agriculture, mining, and the informal sector; and trained 20 officers to perform rapid assessment surveys in these critical sectors.

Foreign Trade Zones/Free Trade Zones

177. To attract export-oriented investment, the GON established the Nigerian Export Processing Zone Authority (NEPZA) in 1992. NEPZA allows duty-free import of all equipment and raw materials into its zones. Up to 25% of production in an export processing zone may be sold domestically upon payment of applicable duties. Investors in

the zones are exempt from foreign exchange regulations and taxes and may freely repatriate capital.

¶178. Of the five export processing zones established under NEPZA, just two, in Calabar and Onne, function properly. In 2001, both were converted into free trade zones, thereby freeing them from the export requirement. As a result, investment is quickly moving into Calabar, almost exclusively in industries that add value to imports.

Another free trade zone, the Tinapa Free Trade Zone owned by the Cross River state government was commissioned during the first quarter of 2007, and several shops and bank branches are operating there. Oil and gas companies use the Onne free port zone as a bonded warehouse for supplies and equipment and for the export of liquefied natural gas. Recently, the GON has encouraged private sector participation and partnership with the federal government and state and local governments under the free zones scheme. This has resulted in the establishment of specialized zones, such as Lekki and Olokola which are under construction.

Foreign Direct Investment

¶179. According to data from the United Nations World Investment Report of 2008, in 2007 the stock of foreign direct investment (FDI) in Nigeria was estimated at \$62.79 billion, which accounted for 37.6% of GDP. Total FDI Inflow was \$12.45 billion in 2007 and accounted for 69.6% of gross fixed capital formation. The \$12.45 billion FDI inflow is mostly concentrated in the oil industry. This figure represents 80% of total FDI in West Africa and 23.5% of total FDI in Africa (including North Africa) and places Nigeria as the top recipient of FDI in Africa. Some FDI is channeled into telecommunications and manufacturing, but the total remains small relative to oil sector investment.

¶180. This cable was coordinated with ConGen Lagos.

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